concerning, *inter alia*, that certain of the Company's previously issued financial statements required adjustment and in turn, the Company lacked effective internal controls over financial reporting. The 2015 Proxy omitted material information concerning the Company's true performance, which is tied directly to the directors' and officers' compensation.

65. On March 24, 2015, the Company filed a current report on Form 8-K with the SEC announcing defendant Xiaoying's resignation as the Company's CFO, effective April 30, 2015. However, the Company also announced that defendant Xiaoying would remain as the CFO of Zhejiang Kandi Vehicles Co., Ltd., a wholly-owned subsidiary of the Company. Also, the Company announced that effective May 1, 2015, defendant Wang would be appointed the new CFO of Kandi.

66. On May 11, 2015, the Company filed its quarterly report on Form 10-Q with the SEC for the quarter ended March 31, 2015 (the "Q1 2015 10-Q"), in which the Company reported net income of $6.13 million, or $0.13 per diluted share, on revenue of $43.78 million, compared to a net loss of $14.09 million, or $0.36 per diluted share, on revenue of $40.17 million for the same period in the prior year.

67. The Q1 2015 10-Q stated, in pertinent part:

> **Evaluation of Disclosure Controls and Procedures**
>
> We have evaluated, under the supervision of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2015. ***Based on this evaluation, our CEO and CFO concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective***.
>
> * * *
>
> **Changes in Internal Control over Financial Reporting**

> There was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

68. The Q1 2015 10-Q was signed by defendants Xiaoming and Wang and contained certifications pursuant to SOX, signed by Xiaoming and Wang, which were the same or substantially similar to the SOX certifications described above.

69. On August 10, 2015, the Company filed its quarterly report on Form 10-Q with the SEC for the quarter ended June 30, 2015 (the "Q2 2015 10-Q"), in which the Company reported net income of $5.43 million, or $0.12 per diluted share, on revenue of $47.96 million, compared to net income of $11.16 million, or $0.27 per diluted share, on revenue of $32.96 million for the same period in the prior year.

70. The Q2 2015 10-Q stated, in pertinent part:

> **Evaluation of Disclosure Controls and Procedures**
>
> We have evaluated, under the supervision of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of June 30, 2015. ***Based on this evaluation, our CEO and CFO concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.***
>
> **Changes in Internal Control over Financial Reporting**
>
> There was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

71. The Q2 2015 10-Q was signed by defendants Xiaoming and Wang and contained certifications pursuant to SOX, signed by Xiaoming and Wang, which were the same or substantially similar to the SOX certifications described above.

72. On November 9, 2015, the Company filed its quarterly report on Form 10-Q with

the SEC for the quarter ended September 30, 2015 (the "Q3 2015 10-Q"), in which the Company reported net income of $2.34 million, or $0.05 per diluted share, on revenue of $50.53 million, compared to net income of $13.53 million, or $0.31 per diluted share, on revenue of $44.21 million for the same period in the prior year.

73. The Q3 2015 10-Q stated, in pertinent part:

> **Evaluation of Disclosure Controls and Procedures**
>
> We have evaluated, under the supervision of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2015. ***Based on this evaluation, our CEO and CFO concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.***
>
> **Changes in Internal Control over Financial Reporting**
>
> There was no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

74. The Q3 2015 10-Q was signed by defendants Xiaoming and Wang and contained certifications pursuant to SOX, signed by Xiaoming and Wang, which were the same or substantially similar to the SOX certifications described above.

75. On March 14, 2016, the Company filed its annual report on Form 10-K with the SEC for the quarter and fiscal year ended December 31, 2015 (the "2015 10-K"), in which the Company reported net income of $770,000, or $0.02 per diluted share, on revenue of $58.80 million, compared to net income of $1.67 million, or $0.04 per diluted share, on revenue of $52.89 million for the same period in the prior year.

76. The 2015 10-K also reported, for fiscal year 2015, net income of $14.67 million, or $0.31 per diluted share, on revenue of $201.07 million compared to net income of $12.27 million,

or $0.29 per diluted share, on revenue of $170.23 million for 2014.

77. The 2015 10-K stated, in pertinent part:

Item 9A. Controls and Procedures.

(a) <u>Evaluation of Disclosure Controls and Procedures</u>

The Company has evaluated, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer, the effectiveness of disclosure controls and procedures as of December 31, 2015. This is done in order to ensure that information the Company is required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is: (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015.

(b) <u>Management's Annual Report on Internal Control Over Financial Reporting</u>

* * *

Management conducted an assessment of the effectiveness of our system of internal control over financial reporting as of December 31, 2015, the last day of our fiscal year. This assessment was based on criteria established in the framework Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and included an evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. ***Based on management's evaluation under the 2013 COSO framework, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2015***.

* * *

NOTE 20 – TAXES

(a) Corporation Income Tax

In accordance with the relevant tax laws and regulations of the PRC, applicable corporate income tax ("CIT") rate is 25%. However, the Kandi Vehicle, qualified

as a high technology company in China, was entitled to pay a reduced income tax rate of 15%. The applicable corporate income tax rate of each of the Company's three subsidiaries, Kandi New Energy, Yongkang Scrou and Kandi Hainan, the JV Company and its subsidiaries and the Service Company was 25%.

The Company, qualified as a high technology company in China, was entitled to pay a reduced CIT rate of 15%. After combining with the research and development tax credit of 25% on certain qualified research and development expenses, the final effective reduced income tax rate was 16.88% . The combined tax benefits were 51.26% . The actual effective income tax rate was reduced from 25% to 12.19% of the 2015 taxable corporate income.

According to the PRC CIT reporting system, the CIT sales cut-off base is concurrent with the value-added tax ("VAT"), which should reported to the State Administration of Taxation ("SAT") on a quarterly basis. Since the VAT and CIT are accounted for on a VAT tax basis that recorded all sales on a "State provided official invoices" reporting system, the Company is reporting the CIT according to the SAT prescribed tax reporting rules. Under the VAT tax reporting system, sales cut-off is not done on an accrual basis but rather on a VAT taxable reporting basis. Therefore, when the Company adopted U.S. GAAP using an accrual basis, the sales cut-off CIT timing (due to the VAT reporting system) creates a temporary sales cut-off timing difference. This difference is reflected in the deferred tax assets or liabilities calculations on the income tax estimate reported elsewhere on the report. Effective January 1, 2007, the Company adopted ASC 740, Income Taxes. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2015, the Company did not have a liability for unrecognized tax benefits. The Company files income tax returns to the U.S. Internal Revenue Services ("IRS") and states where the Company has operations. The Company is subject to U.S. federal or state income tax examinations by the IRS and relevant state tax authorities for years after 2006. During the periods open to examination, the Company has net operating loss carry forwards ("NOLs") for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of December 31, 2015, the Company was not aware of any pending income tax examinations by U.S. and China tax authorities.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2015, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S. federal income tax for the year ended December 31, 2015 due to the net operating loss in 2015 and an accumulated net operating loss carry forward from prior years in the United States.

Income tax expenses for the years ended December 31, 2015, 2014 and 2013 is summarized as follows:

	For the Years Ended December 31,		
	2015	**2014**	**2013**
Current:			
Provision for CIT	$ 6,127,228	$ 2,414,412	$ 1,593,994
Provision for Federal Income Tax	-	-	-
Deferred:			
Provision for CIT	-	-	-
Income tax expense (benefit)	$ 6,127,228	$ 2,414,412	$ 1,593,994

The Company's income tax expense differs from the "expected" tax expense for the years ended December 31, 2015, 2014 and 2013 (computed by applying the U.S. Federal Income Tax rate of 34% and PRC Corporation Income Tax rate of 25%, respectively to income before income taxes) as follows:

	For the Years Ended December 31, (Unaudited)		
	2015	**2014**	**2013**
Computed "expected" expense	$ (4,013,791)	$ 929,405	$ (1,381,713)
Favorable tax rate	(912,548)	(611,672)	(1,378,429)
Permanent differences	3,408,181	(929,318)	361,230
Valuation allowance	7,645,386	3,025,997	3,992,906
Income tax expense (benefit)	$ 6,127,228	$ 2,414,412	$ 1,593,994

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of December 31, 2015, 2014 and 2013 are summarized as follows:

	December 31, 2015 (Unaudited)	**December 31, 2014**	**December 31, 2013**
Current portion:			
Deferred tax assets (liabilities):			